

Message Text

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ACTION ARA-20

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TAGS: EFIN, BR

SUBJECT: REVISED BALANCE OF PAYMENTS FORECAST FOR 1974

REF: (A) BRASILIA A-17 JANUARY 1974

(B) BRASILIA 64 OF JANUARY 4, 1974

1. SUMMARY: REVISED EMBASSY BALANCE OF PAYMENTS FORECASTS FOR 1974 INDICATE EXPORTS RISING BY ABOUT 30 PERCENT TO \$8,000 MILLION AND IMPORTS INCREASING BY ABOUT 50 PERCENT TO \$9,250 MILLION, OF WHICH \$3 BILLION IS ATTRIBUTABLE TO OIL IMPORTS ALONE. THE TRADE BALANCE IS PREDICTED TO BE NEGATIVE BY \$1,250 MILLION. WITH TRADITIONAL OUTFLOW ON SERVICE ACCOUNT EXPECTED TO CONTINUE, CURRENT ACCOUNT BALANCE LIKELY TO BE IN DEFICIT BY AROUND \$3,200, AS COMPARED WITH DEFICIT OF \$1,290 IN 1973. BRAZIL'S BALANCE OF PAYMENTS OBJECTIVE IN 1974 IS TO MAINTAIN CURRENT LEVEL OF OFFICIAL RESERVES OF \$6.4 BILLION UNCHANGED; THUS THE CURRENT ACCOUNT DEFICIT EXPECTED TO BE FINANCED WITH LIMITED OFFICIAL USE

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ADDITIONAL CAPITAL INFLOW. END SUMMARY.

2. REFS A AND B CONTAINED THE EMBASSY'S BEST JUDGMENT ON BRAZIL'S BALANCE OF PAYMENTS OUTLOOK FOR 1974. THOSE FORECASTS WERE MADE AT THE TURN OF THE YEAR SHORTLY AFTER THE OIL CRISIS BROKE AND BEFORE FINAL BALANCE OF PAYMENTS DATA FOR 1973 WERE AVAILABLE. THE RECENT PUBLICATION IN THE CENTRAL BANK ANNUAL REPORT OF DEFINITIVE 1973 PAYMENTS DATA, A BETTER INDICATION OF THE IMPACT OF HIGHER OIL PRICES ON BRAZIL'S IMPORT BILL AND AN IMPROVED OUTLOOK FOR AGRICULTURAL EXPORTS, REQUIRE US TO REVISE OUR EARLIER PROJECTIONS.

3. EXPORTS: WE ARE ADJUSTING UPWARD THE EXPORT (FOB) FORECAST FOR 1974 TO \$8,000 MILLION FROM EARLIER PROJECTED FIGURE OF \$7,300 MILLION, AND FINAL 1973 TOTAL OF \$6,198 MILLION. ON THE BASIS OF THIS FORECAST, THE 1974/1973 EXPORT INCREASE AMOUNTS TO ABOUT 30 PERCENT WHICH REPRESENTS SOME DECELERATION FROM THE HIGH RATES OF LAST TWO YEARS (AVERAGE OF 45 PERCENT). THERE ARE TWO REASONS WHICH COMPEL US TO CHANGE THE EARLIER FIGURE: (A) THE EXPORT OUTLOOK FOR AGRICULTURAL PRODUCTS HAS IMPROVED BOTH AS A RESULT OF BETTER HARVESTS, EITHER ALREADY COLLECTED OR ANTICIPATED, FOR MOST COMMODITIES THAN EARLIER EXPECTED AND CONTINUED FAVORABLE WORLD COMMODITY PRICES AND (B) THE NEW FINANCE MINISTER HAS PUBLICLY STATED THAT BRAZIL'S EXPORT GOAL FOR THIS YEAR IS \$8,000 MILLION AND ALL POSSIBLE EFFORTS WILL BE MADE TO ACHIEVE IT.

4. OUR ANALYSIS OF THE 1974 EXPORT OUTLOOK INDICATES THE FOLLOWING PROJECTED COMMODITY BREAKDOWN (1973 TOTAL IN PARENTHESIS): AGRICULTURAL PRODUCTS \$4.9 BILLION (\$3.8 BILLION), MINERAL \$500 MILLION (\$382 MILLION), MANUFACTURES \$2.4 BILLION (\$1.8 BILLION), OTHERS \$200 MILLION (\$161 MILLION).

5. IMPORTS: THE FORECAST FOR IMPORTS IS CLOSELY RELATED TO THE ESTIMATE USED FOR THE AMOUNT TO BE EXPENDED ON IMPORTED OIL. WHEN OUR LAST ESTIMATES WERE MADE, AVAILABLE OIL IMPORT DATA FOR FIRST SEVEN MONTHS CONVERTED ON AN ANNUAL BASIS INDICATED THAT BRAZIL'S WOULD IMPORT ABOUT 200 MILLION BARRELS OF OIL DURING 1973, A FIGURE WHICH WAS CONFIRMED BY A NUMBER OF OIL INDUSTRY REPRESENTATIVES. USING AN AVERAGE PRICE OF \$4 PER BARREL, WE ANTICIPATED AT THAT TIME \$800 MILLION FOR THE 1973 LIMITED OFFICIAL USE

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OIL IMPORT BILL. USING THESE FIGURES AS OUR BASIS AND ASSUMING CONTINUATION OF LONG-TERM CONSUMPTION GROWTH OF 10 PERCENT, WE HAD FORECAST A \$2.0 BILLION OIL BILL FOR 1974. IT NOW APPEARS, HOWEVER, THAT OUR ESTIMATE FOR 1973 ON THE VOLUME OF OIL IMPORTS WAS ON LOW SIDE AND THEREFORE OUR 1974 PROJECTION WAS ALSO TOO LOW. ACCORDING TO PETROBRAS STATISTICS RECENTLY RELEASED, BRAZIL IMPORTED LAST YEAR 261 MILLION BARRELS OF CRUDE OIL, INSTEAD OF 200 MILLION AS EARLIER

BELIEVED. (OUR EARLIER FIGURE OF 200 MILLION BARRELS WAS APPARENTLY OFF THE MARK SINCE THERE WAS HEAVY UNANTICIPATED BUYING DURING LATTER PART OF YEAR; ABOUT 50 PERCENT OF THE 1973 OIL WAS IMPORTED DURING LAST FIVE MONTHS.) AS THE AVERAGE CIF PRICE TURNED OUT TO BE \$3.86 PER BARREL, TOTAL FOREIGN EXCHANGE OUTFLOW FOR OIL LAST YEAR CAME TO \$1,007 MILLION. USING THE FINAL PETROBRAS DATA FOR 1973 AS OUR BASE FOR THE 1974 FORECAST, WE AGREE WITH THE PROJECTION MADE BY THE FINANCE MINISTER AND OTHER OFFICIALS THAT BRAZIL WILL SPEND ABOUT \$3.0 BILLION ON OIL THIS YEAR. ALTHOUGH NO BREAKDOWN BETWEEN VOLUME AND PRICE HAS BEEN GIVEN, WE WOULD EXPECT THE VOLUME OF OIL IMPORTS TO BE ONLY SLIGHTLY HIGHER THAN LAST YEAR (PERHAPS UP 5 PERCENT TO 275 MILLION) WITH AVERAGE PRICES CONSIDERABLY HIGHER (POSSIBLY AROUND \$11.0 PER BARREL). PETROBRAS HAS ANNOUNCED THAT IT PAID ABOUT \$12.00 PER BARREL FOR ITS OIL DURING THE FIRST TWO MONTHS OF 1974.

6. IN ADDITIONAL TO \$3.0 BILLION TO BE SPENT ON OIL, NON-OIL IMPORTS ARE EXPECTED TO AMOUNT TO \$6.250 MILLION FOR A TOTAL IMPORT BILL IN 1974 OF \$9,250 MILLION, AS COMPARED WITH \$6,016 MILLION IN 1973. WE ESTIMATE NON-OIL IMPORTS IN 1974 TO INCREASE BY ABOUT 25 PERCENT.

7. GIVEN THE ABOVE ESTIMATES FOR EXPORTS AND IMPORTS, THE TRADE ACCOUNT WILL BE IN DEFICIT IN 1974 BY AROUND \$1,250 MILLION, IN CONTRAST TO TO A SURPLUS OF \$182 MILLION REGISTERED LAST YEAR. ASSUMING THE TRADITIONAL NEGATIVE BALANCE ON THE SERVICE ACCOUNT, WHICH THIS YEAR IS EXPECTED TO BE HIGHER BECAUSE OF LARGER INTEREST PAYMENT OUTFLOWS CONNECTED WITH A LARGER FOREIGN DEBT AND HIGHER TRANSPORT COSTS, THE CURRENT ACCOUNT IS ANTICIPATED TO BE IN DEFICIT BY ABOUT \$3,200 MILLION, CONSIDERABLY HIGHER THAN THE \$1,290 MILLION DEFICIT OF 1973. IN HIS PRIVATE MEETING WITH SECRETARY SHULTZ, FINANCE MINISTER SIMONSEN STATED LIMITED OFFICIAL USE

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THAT THIS YEAR BRAZIL'S CURRENT ACCOUNT DEFICIT WOULD BE ON THE ORDER OF \$3.0 - \$3.5 BILLION.

8. AS THE UNCERTAINTY CONTINUES REGARDING THE FLOW OF ARAB OIL MONEY THRU THE INTERNATIONAL MONEY MARKETS, NO ATTEMPT IS MADE TO FORECAST BRAZIL'S CAPITAL ACCOUNT BALANCE. THE FINANCE MIN HAS STATED, HOWEVER, THAT BRAZIL'S BALANCE OF PAYMENTS OBJECTIVE IN 74 IS TO MAINTAIN THE CURRENT LEVEL OF OFFICIAL RESERVES OF \$6.4 BILLION UNCHANGED. HENCE, BRAZIL IS HOPING FOR A NET CAPITAL INFLOW OF AT LEAST \$3,200 MILLION TO FINANCE ITS CURRENT ACCOUNT (LAST YEAR'S NET CAPITAL INFLOW WAS \$3,680 MILLION).

9. DETAILS ON ABOVE BALANCE OF PAYMENTS FORECASTS AND FINAL

DATA FOR 1973 FOLLOW BY SEPARATE AIRGRAM.

10. COMMENT: AS ALREADY NOTED IN REF B, WE BELIEVE THAT BRAZIL CAN ABSORB THE HIGHER COST OF IMPORTED OIL IN 1974, EITHER BY INCREASING ITS FOREIGN DEBT, BY DRAWING DOWN ITS OFFICIAL RESERVES OR BY A COMBINATION OF BOTH, WITHOUT HAVING TO SLOW DOWN ITS RATE OF GROWTH. WHAT HAPPENS BEYOND 1973 IS UNCERTAIN, HOWEVER. FINANCE MIN SIMONSEN NOTED IN HIS RECENT CONVERSATION WITH SEC SHULTZ THAT BRAZIL WOULD MAINTAIN ITS 10 PERCENT GROWTH TARGET AS LONG AS THE BALANCE OF PAYMENTS PERMITTED IT. HE DID NOT SAY WHETHER THE BALANCE OF PAYMENTS WOULD IN FACT PERMIT THIS GROWTH RATE OVER THE LONGER RUN. HE CONCEDED, HOWEVER, THAT SHOULD THE EXTERNAL PAYMENTS SITUATION BECOME DIFFICULT, BRAZIL WOULD BE PREPARED TO LOWER ITS GROWTH TARGET.
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